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Nos. 86-495, 86-624 and 86-625

IN THE

Supreme Court of the United States

OCTOBER TERM, 1987

K MART CORPORATION,
Petitioner
v.
CARTIER, INC., *et al.*

47TH STREET PHOTO, INC.,
Petitioner
v.
COALITION TO PRESERVE THE INTEGRITY OF AMERICAN TRADEMARKS, *et al.*

UNITED STATES OF AMERICA, *et al.*,
Petitioners
v.
COALITION TO PRESERVE THE INTEGRITY OF AMERICAN TRADEMARKS, *et al.*

On Writs of Certiorari to the United States Court of Appeals for the District of Columbia Circuit

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REPLY BRIEF FOR PETITIONER 47TH STREET PHOTO, INC.

NATHAN LEWIN
(Counsel of Record)
JAMIE S. GORELICK
STEPHEN L. NIGHTINGALE
MILLER, CASSIDY, LARROCA & LEWIN
2555 M Street, N.W., Suite 500
Washington, D.C. 20037
(202) 293-6400
Attorneys for Petitioner
47th Street Photo, Inc.

WILSON - EPES PRINTING CO., INC. - 789-0096 - WASHINGTON, D.C. 20001

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INTRODUCTION

The legal position that emerges from the briefs of COPIAT and its cadre of *amici* [1] is stark: If a corpo-

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[1] The array of COPIAT's *amici* is designed to convey the impression that the issue in this case concerns American manufacturers more than foreign manufacturers. That is simply untrue. Indeed, the study by Lexecon Inc. that was sponsored by COPIAT and relied upon in COPIAT's discussion of parallel importation

ration incorporated in the United States is the registered owner of trademark rights under American law, even if it is a shell wholly owned by a foreign manufacturer who controls the trademark elsewhere in the world, Section 526 gives the foreign manufacturer, through its subsidiary, the statutory power to exclude from the United States authentic trademarked goods manufactured abroad. In other words, COPIAT maintains that legal form, rather than substance, is the only standard that Congress prescribed in 1922, and legal form, not substance, is the sole standard that governs this Court's decision 65 years later.

We detail below some of the many reasons why COPIAT's legal arguments are erroneous. But we begin by noting that COPIAT's sacrifice of substance to form belittles both Congress and the Court. The plain meaning doctrine does not mean that the purpose and intention of Congress are to be ignored or that words are to be read devoid of their context. The Congress that enacted Section 526 plainly wanted to deny to foreign corporations the statutory right to control the flow of their own merchandise into the United States. But, according to COPIAT, Congress' deliberate judgment may be ignored if a wholly owned American subsidiary is established to hold legal title to American trademark rights. If COPIAT is right, the 1922 Congress labored to create a distinction—*i.e.*, between foreign and American corporations—which makes no practical difference.

This Court cannot read Section 526 as COPIAT would read it without obliterating Congress' directive that a foreign corporation have no right to exclude its own

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(COPIAT Br. 5, n.5) states on page 2 that "[m]ost COPIAT members are U.S. subsidiaries of foreign manufacturers." This was the understanding of the court below. 790 F.2d 903, 904. *Amicus* Lever Brothers, for example, initially calls itself "the American manufacturer of quality trademarked merchandise," but acknowledges in its brief that it is a wholly owned subsidiary of a Dutch company that controls worldwide distribution of its products. Lever Bros. Br. 2-3, 5-6.

merchandise and that only an American corporation be given that right. To accept COPIAT's argument, the Court would also have to ignore what has been happening in international commerce over the past half century—and particularly over the most recent decade and a half. Parallel imports have been permitted into the United States—as they have been permitted into virtually all economically developed countries—since at least 1972.[2] Patterns of international trade in consumer goods have developed on the basis of this policy. Investments have been made and expectations have been created. If the *status quo* is to be altered, Congress should make the change, not this Court.

ARGUMENT

I. SECTION 526 IS NOT CLEAR.

COPIAT states time and again that Section 526 "is clear," that it has a "natural meaning," and that the principles governing "unambiguous" terms of a statute apply here. In view of the overwhelming evidence of contrary administrative practice and of Congress' ratification of that practice, it is not surprising that COPIAT seeks refuge in its own preferred construction of the statutory language. But the statute does not become clear simply because COPIAT repeatedly calls it clear. The only clear aspect of the statute is its application to independent American purchasers of foreign trademarks. The question posed by COPIAT is whether the statutory language includes the much broader category of U.S. distributors of foreign-manufactured goods.

Because the key words of the statute have been given various meanings depending upon their context, the plain meaning of the statute cannot be determined without reference to congressional intent. The meaning that

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[2] We maintain that this has been true since 1922, and demonstrably since the 1930's. 47th St. Photo Br. 30-36. But even if COPIAT's broadest assertions are accepted as true, the Customs Service regulation that was challenged in its 1984 lawsuit was promulgated in 1972.

COPIAT views as "natural"—*i.e.*, that General Motors would obtain a domestic monopoly in GM cars if it moved its manufacturing abroad—is, in actuality, unreasonable and unnatural in view of Congress' manifest purpose in 1922 and 1930 of protecting independent purchasers of foreign trademarks and preventing the loss of U.S. manufacturing facilities. COPIAT's interpretation of Section 526 would in fact give companies like General Motors an *incentive* to locate their operations in a foreign country because only then could such companies control the flow of their products into the United States. This is in direct conflict with the 1922 Congress' intent to protect *American* operations, and is dramatically inconsistent with the 1929 debate, in which the Senate's sole concern was to *prevent* American companies from relocating their plants.

Moreover, the general guidelines governing statutory interpretation that COPIAT quotes liberally do not apply when, as here, the statute in question has been hastily drafted and its precise language has not been subjected to rigorous legislative scrutiny.

A. The Key Words "Owned," "Domiciled," and "Foreign Manufacture" Are Ambiguous.

1. *"Owned"*—If a foreign company is the sole stockholder of an American corporation that holds legal title to trademark rights, is the trademark "owned by a citizen of . . . the United States?" COPIAT claims that the statutory word "owned" is a "clear" directive that the subsidiary, rather than the parent, is the owner. In fact, however, the legal concept of "ownership" has been the subject of much controversy and litigation.

In many contexts, the courts have held that property held by a corporation for the benefit of its sole stockholder is, in substance, "owned" by the stockholder. In the case of corporate parent and subsidiary, this Court has noted the "unity of interest" between corporations in this relationship. *See Copperweld Corp. v. Independence Tube Corp.*, 467 U.S. 752, 771 (1984). The cor-

porate parent is, we submit, the true "owner" of property held for its benefit by the subsidiary.

There are various situations where a corporation is considered the *alter ego* of its shareholder, and "ownership" by the subsidiary is treated as the "ownership" of the parent. *See, e.g., Valley Finance, Inc. v. United States*, 629 F.2d 132 (D.C. Cir. 1980), *cert. denied*, 451 U.S. 1018 (1981) (jeopardy assessment); *cf. Loving Saviour Church v. United States*, 556 F. Supp. 688, 690 (D.S.D. 1983), *aff'd*, 728 F.2d 1085 (8th Cir. 1984) ("the word ['owner'] may depend for its significance upon the connection in which it is used, and at times may include one not holding legal title"). Courts have frequently pierced the form in which "ownership" is documented and have assigned the title "owner" to the real party in interest. In *United States v. One 1945 Douglas*, 604 F.2d 27, 28 (8th Cir. 1979), *later appeal*, 647 F.2d 864 (8th Cir. 1981), *cert. denied*, 454 U.S. 1143 (1982), the court of appeals defined "ownership" as

> having a possessory interest in the res, with its attendant characteristics of dominion and control.

The court of appeals went on to distinguish between a "nominal owner," who may have title for the benefit of another, and the "true owner." *See also United States v. D.K.G. Appaloosas, Inc.*, 630 F. Supp. 1540, 1567-1568 (E.D. Tex. 1986) (court rejects proposition that "documents of title establish corporate ownership of the seized property").

The ambiguity of the word "owned" is summarized at 73 *Corpus Juris Secundum*, Property § 25(a): "The term 'owner' is a general term having a wide variety of meanings depending on the context and the circumstances in which it is used." *See, e.g., Huff v. Union Electric Co.*, 598 S.W.2d 503, 510-13 (Mo. Ct. App. 1980); *American Indemnity Co. v. Davis*, 260 F.2d 440, 442 (5th Cir. 1958). Given the present "context and circumstances," the "owner" of the trademark is not the

wholly owned American subsidiary to whom the legal trademark rights have nominally been assigned but the actual beneficial owner of those trademark rights—the foreign parent.[3]

(2) *"Domiciled"*—If the corporate subsidiary of a foreign company registers a trademark with the Patent Office, has that trademark been registered "by a person domiciled in the United States?" Is the subsidiary's state of incorporation the "domicile" to which the Court must look, or is the registrant "domiciled" where its business decisions are actually considered and controlled? In *First Bank Stock Corp. v. Minnesota*, 301 U.S. 234, 237-238 (1937), this Court ignored the legal situs of incorporation in favor of a practical assessment of where the corporation was operated and controlled. Although the corporation was legally "domiciled" in Delaware, it held stock certificates in Minnesota, and the corporation operated its business and maintained a wholly-owned subsidiary there. As a consequence, the Court held that Minnesota was the corporation's commercial "domicile." The fact that this Court distinguished between two distinct kinds of "domicile" just seven years after Congress re-enacted Section 526 refutes COPIAT's claim that the term is "unambiguous."

Moreover, Congress provided double assurance that only a domestic trademark owner could exercise the right granted by Section 526. It required not only that the owner be an American citizen, but also that the registrant of the trademark be an American domiciliary. Facile evasion of this doubly-secured condition by per-

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[3] Because of the ambiguity of the term "ownership"—as well as the strong evidence of Congressional intent—COPIAT's reliance on *Amoco Production Co. v. Village of Gambell*, 107 S. Ct. 1396, 1406 (1987), is misplaced (plain meaning applies where "an expression is capable of precise definition" and there is no "strong evidence" that Congress actually intended another meaning). *See Rockford Life Insurance Co. v. Illinois Dep't of Rev.*, 107 S. Ct. 2312 (1987); *San Francisco Arts & Athletics, Inc. v. U.S. Olympic Committee*, 107 S. Ct. 2971 (1987).

mitting wholly owned corporate subsidiaries to invoke Section 526 rights would conflict squarely with Congress' policy choice.

(3) *"Foreign Manufacture"*—COPIAT and its *amici* contend that the statute applies by its terms to goods manufactured abroad by a subsidiary of an American corporation such as General Motors. They claim that we must be arguing that General Motors "either does not 'own' its Chevrolet trademark or is not 'domiciled' in the United States." COPIAT Br. 21. That is a misstatement of our argument.

We contend that a foreign corporate *parent* does not qualify as an American "owner" of the trademark, and that if its subsidiary is the trademark registrant, the "domicile" to be looked to is the domicile of the parent. With respect to American corporations whose foreign subsidiaries manufacture products that are then imported to the United States, they do not qualify under Section 526 for several reasons.

First, it is plain that Congress was contemplating a situation of a foreign producer who is independent of the American trademark owner. The talk of "fraud" that permeated the short Senatorial debate makes no sense in the context of a foreign subsidiary of an American firm. The subsidiary plainly cannot be defrauding its parent if its authentic goods make their way to the United States. Indeed, if General Motors located a production plant just across the Canadian border, COPIAT's argument would apply to the importation of goods manufactured in that plant. Yet that was obviously not Congress' intention in either 1922 or 1930.

Second, the goods manufactured by the subsidiaries of General Motors or Duracell do not become "merchandise of foreign manufacture" simply because the American corporation chooses to locate its production plant on the other side of the border. If General Motors manufactured Chevrolets to American specifications, in a neighboring Canadian city, they would not be "merchandise

of foreign manufacture" within the meaning of Section 526.

The words "merchandise of foreign manufacture" were inserted into Section 526 on the floor of the Senate to deal with the situation of an American citizen who buys a sack of "Wonder flour" in Canada. 62 Cong. Rec. 11,603-11,604 (1922). Congress did not seem to care precisely *where* the "Wonder flour" was processed or packaged. Its point was that it was an *American* product—much as Chevrolet automobiles are today. By inserting the language "merchandise of foreign manufacture," Congress meant to except American products manufactured by American companies, regardless of where they were produced.

B. Since Section 526 Was Hastily Drafted, Its Terms Are Not "The Unambiguously Expressed Intent of Congress."

COPIAT treats the language of Section 526 as if each of its terms had been scrupulously dissected and analyzed by Congress. Such treatment is suitable for a law that travels the usual legislative course—*i.e.*, that is drafted by experienced legislative draftsmen, carefully examined in legislative hearings, reviewed by staff personnel involved in composing legislative reports, and discussed from every angle during legislative debate. The same respect is plainly not due to language that has been hastily thrown together to cover a particular situation that arises while a bill is being debated on the floor of Congress.

It is undisputed that Section 526 was a "midnight amendment," enacted quickly with little examination of the precise language used in the law.[4] It was an amendment to the Tariff Act of 1922, specifically addressing the

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[4] Senator Moses stated that the amendment "was put back in the bill among the myriad amendments brought in by the committee the other morning after their midnight session, and it may be fairly classified now as one of the midnight amendments." 62 Cong. Rec. 11,602 (1922).

situation of *A. Bourjois & Co. v. Katzel*, 275 F. 539 (2d Cir. 1921).[5] Only ten minutes of debate on the Senate floor preceded its adoption.

The Court has long held that broad language of a statute or regulation, if hastily drafted or included as a last-minute amendment, must be limited to the particular concern that occasioned its enactment. *See United States v. Bass*, 404 U.S. 336, 344 (1971) (Title VII of Omnibus Crime Control and Safe Streets Act cannot be read to dovetail with Title IV, because of its hasty passage); *Fort Smith & Western Railroad Co. v. Mills*, 253 U.S. 206, 208 (1920) (law setting maximum hours and minimum wages for railroad workers did not apply to railroad in receivership, where purpose of statute was to avoid strikes); *cf. Ernst & Ernst v. Hochfelder*, 425 U.S. 185, 212 n.32 (1976) (noting hasty passage of Rule 10(b)-5). As Justice Holmes noted (253 U.S. at 208):

> But the statute avowedly was enacted in haste to meet an emergency, and the general language necessary to satisfy the demands of the men need not be taken to go further than the emergency required, or to have been intended to make trouble rather than to allay it.

Such statutory language should not be construed to reach unforeseen circumstances. In *McMunn v. Hertz Equipment Rental Corp.*, 791 F.2d 88, 93 (7th Cir. 1986), the Seventh Circuit recently said:

> Statutes are drafted in haste and sometimes carelessly, by busy legislators concerned with a particular problem but also concerned not to draft their statute

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[5] COPIAT acknowledges that the sponsors of the statute told their colleagues that the law was designed for that limited purpose. They claim, however, that its true purpose was hidden by "blur[ring] one of the targets, stating that all the amendment did was to 'prevent fraud' and imputing to the *Katzel* case a species of fraud not present in it." COPIAT Br. 28. COPIAT perversely ignores what the sponsors *said* the bill was to accomplish and elevates their alleged hidden agenda.

> so narrowly that it opens gaping loopholes. When they use general language they create a potential for application to situations unforeseen by them and remote from their purposes, and then it is the task of courts by imaginative interpretation to keep the statute within reasonable bounds . . .

The use of international conglomerates was obviously "unforeseen" by the 1922 Congress. Indeed, there is no evidence that Congress even contemplated that a foreign corporation would own all the stock of an American corporation.[6] The situation presented in this case was altogether beyond Congress' vision. *See also Morrison-Knudsen Constr. Co. v. Director, Office of Workers' Compensation Programs*, 461 U.S. 624, 632 (1983).

C. Section 526 Legislates More Than a Mere Formality.

According to COPIAT's argument, the right to exclude authentic goods granted by Section 526 exists if any entity incorporated in the United States owns the American trademark. Did Congress mean to deny the newly created right to foreign owners of American trademarks but to grant that right if the foreign owner obtained a certificate of incorporation for a subsidiary in the United States? If Cartier, Inc., is excluded from the right conferred by Section 526 because it is a foreign corporate

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[6] The legislative history of Section 526 includes Senator Lenroot's question whether a foreign manufacturer could use an American "agent" to gain a monopoly in its goods. 62 Cong. Rec. 11,605 (1922). COPIAT claims that Senator Lenroot "pointedly raised the issue of the treatment of a corporation created within the United States acting as agent or distributor for a foreign parent." COPIAT Br. 31. And the court below also stated that "Senator Lenroot explicitly raised the issue of an American subsidiary of a foreign company." 790 F.2d at 912. But Senator Lenroot never spoke of a corporation or of a "subsidiary." Rather, from Senator Edge's first reference to an American "agent" or "agency," it was assumed that the foreign manufacturer would act through a human agent. There is no basis for believing that Congress imagined that foreign manufacturers would take advantage of Section 526 by incorporating a subsidiary in the United States.

entity, does it qualify if it creates a corporation to whom it assigns the American trademark?

If so, Congress has legislated a mere formality. It is well established that legislation should not be interpreted to attribute to Congress so senseless a requirement. *See, e.g., United States v. George*, 625 F.2d 1081, 1086 (3d Cir. 1980); *Bankers Trust Co. v. United States*, 438 F.2d 1046, 1048 (2d Cir. 1971) ("It would be wrong to attribute to Congress an intent to require executors to engage in useless formalities . . ."); *Beeler v. United States*, 338 F.2d 687, 690 (3d Cir. 1964) ("to attribute to Congress an intent to give overriding effect to mere technicalities—an intent which would be directly contrary to the whole purpose and spirit of the legislation"); *W.K. Buckley, Inc.* v. *Commissioner*, 158 F.2d 158, 162 (2d Cir. 1946). "In particular, the Court has consistently refused to give effect to the corporate form where it is interposed to defeat legislative policies." *First Nat. City Bank v. Banco Para El Comercio*, 462 U.S. 611, 629-630 (1983). *See also Anderson v. Abbott*, 321 U.S. 349, 362-363 (1944).

II. THE CUSTOMS SERVICE HAS NEVER BARRED PARALLEL IMPORTS.

If COPIAT's view—that Section 526 clearly and unambiguously protects international conglomerates that distribute their goods in the United States—were correct, the 50-year enforcement history of the statute should reflect at least *one instance* in which the Customs Service deliberately prohibited parallel importation. While our briefs cite cases (such as the 1951 *Jensen* decision [7]),

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[7] *In the Matter of Georg Jensen, Inc.*, T.D. 52,711 (1951). COPIAT asserts, at p. 46 of its Brief, that it did not become the Customs Service's "public view" that parent and subsidiary companies were to be treated as one, until 1968. The *Jensen* decision—issued in 1951—is itself a public statement of that policy. *See also* Derenberg, "The Impact of the Antitrust Laws on Trade-Marks in Foreign Commerce," 27 *N.Y.U.L. Rev.* 414, 429 (1952)

and administrative determinations over the half century of regulatory history, COPIAT cannot point to a single period of time in which commonly controlled entities were given the right to prohibit parallel importation, or to a single instance in which such parallel imports were knowingly prevented by the Customs Service.

Much is made of *United States v. Guerlain, Inc.*, 155 F. Supp. 77, 90 (S.D. N.Y. 1957), *vacated*, 358 U.S. 915 (1958), where American affiliates of French perfume manufacturers persuaded Customs to exclude parallel imports of their perfumes. But Customs did so without knowing of the "controlling foreign affiliations" of the American trademark owners. John F. Atwood, a Customs law specialist, noted that the exclusion by Customs conflicted with contemporaneous Customs policy (Atwood, "Import Restrictions on Trademarked Merchandise—The Role of the United States Bureau of Customs," 59 *Trademark Rep.* 301, 307 (1969)):

> [T]he Bureau of Customs . . . had always denied complete exclusionary protection to an American trademark registrant when it knew the importer to be a subsidiary or parent of the foreign user of the trademark. Prior to 1953, however, the Customs Regulations were not set up to specifically elicit this kind of information.[8]

(citing *Jensen* and the "long established practice" of Customs not to prevent parallel importation if the foreign user "owns, or in some manner, controls" the U.S. trademark).

[8] COPIAT maintains that this explanation does not accord with the government's subsequent action in seeking legislation. COPIAT Br. 46, n.35. But there was no inconsistency in seeking legislation and dismissing the antitrust case because, on its singular facts, it was unfair to proceed against trademark owners if the Customs Service had unwittingly assisted their effort to exclude parallel imports. The legislative proposal (H.R. 7234, 86th Cong., 1st Sess. (1959)) went substantially beyond the facts in *Guerlain* or those of this case. It would have restricted only the importation of counterfeit goods, leaving even *bona fide* independent American trademark owners without protection.

A. Customs' Earliest Published Regulations Applied To Section 526.

COPIAT argues that the regulations, for most of their history, effectuated only the trademark laws, and not the Customs laws. COPIAT Br. 42-44. But Section 526 of the Tariff Act and Section 42 of the Lanham Act have always been read *in pari materia*.[9] Moreover, the structure of the early regulations refutes COPIAT's argument that they were limited to Section 42 of the Lanham Act. Articles 518 and 522 of the 1936 Regulations parallel the structure of Sections 526(a) and (b) of the Tariff Act. Section 526(a) of the Tariff Act is titled "*Importation Prohibited*," and Article 518 of the Regulations is titled "*Prohibition of Importation.*" Section 526(b) of the Tariff Act is titled "*Seizure and Forfeiture*," and Article 522 of the Regulations is called "*Detention—Seizure—Importation—Release.*" In addition, Article 518(b) of the 1931 Regulations refers explicitly to Section 526. It seems plain that Article 518 was an interpretation of Section 526(a), and Article 522 was an interpretation of Section 526(b).

B. The Regulations Implement The "First Sale" Doctrine.

The 1931 and 1936 regulations, which carry through to the present, embody the "exhaustion principle"—the longstanding rule that it is only the first sale, and not resales, which a trademark holder can control under the trademark laws. As a leading commentator has explained:

> The resale or advertising for sale of the genuine plaintiff's article in its original form, under plaintiff's trademark, affixed by plaintiff's authorization, is not trademark infringement.

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[9] COPIAT itself began this litigation asserting that the two statutes have the same "reach" (Brief for Appellant at 73, *COPIAT v. United States*):

> If Section 42 has a reach different from that of Section 526, the agency has never explained why there is a difference or just what the difference is.

3A Callman, *The Law of Unfair Competition, Trademarks and Monopolies*, § 21.13, at 62 (Altman 4th ed. 1983) (footnote omitted). Thus, when one entity operating in both American and foreign markets places its trademark on a product and introduces it into commerce, it may not use its trademark to control the further distribution of that product.[10] In the parallel import context, a trademark owner has no trademark right "to insulate itself from what it placed in motion itself through its own foreign manufacturing and distribution sources." *Parfums Stern, Inc. v. United States Customs Service*, 575 F. Supp. 416, 419 (S.D. Fla. 1983); *accord*, *NEC Electronics v. CAL Circuit ABCO*, 810 F.2d 1506, 1511 (9th Cir. 1987) ("This country's trademark law does not offer . . . a vehicle for establishing a worldwide discriminatory pricing scheme simply through the expedient of setting up an American subsidiary with nominal title to its mark.").

III. SECTION 526 PROVIDES NO PROTECTION AGAINST THE IMPORTATION OF INFERIOR PRODUCTS.

The most astounding claim made by COPIAT's *amici* is that they must have the authority to exclude authentic trademarked goods to protect American consumers from inferior products. Lever Bros. Br. 6-8; American Cyanamid, *et al.* Br. 5-6; Motor Vehicle Manufacturers Association Br. 6-11; United States Trademark Association Br. 9. The alleged inferior products which they want to bar from the United States are *their own goods*,

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[10] The Customs Service explained its policy under Section 526 in similar terms. The letter dated March 23, 1951, from Frank Dow, Commissioner of Customs, to Senator Paul H. Douglas (J.A. 350), said that if the U.S. trademark owner and the foreign trademark owner are the same—so that "a foreign subsidiary or licensee of the United States trade-mark owner is considered to stand in the same shoes as such trade-mark owner"—articles which the foreign owner has sold abroad may be imported and resold because "the trade-mark owner himself introduced the articles into commerce or authorized such introduction."

that they have manufactured abroad or that have been produced under their license. And these same corporations have authorized use of their trademark on these allegedly inferior products manufactured abroad. If there is confusion in the mind of American consumers (*see, e.g.*, Lever Bros. Br. 8),[11] it is confusion caused entirely by the manufacturers themselves.

The Federal Trade Commission's Bureaus of Competition, Consumer Protection and Economics provided their comments on parallel importation to the Customs Service on October 17, 1986 (*"FTC Comments"*). The FTC noted that multi-national trademark owners may resolve consumer confusion by attaching different trademarks to goods of differing quality. The FTC said (*FTC Comments* 19-20, footnote omitted):

> Although some foreign manufacturers whose products are gray marketed have evidenced substantial interest in curtailing gray markets, many manufacturers have failed to take seemingly low-cost actions (for example labeling products distributed through authorized channels) that might solve their problem.

Moreover, a trademark owner who applies his trademark to materially different goods will generally be held to have abused his trademark. *Royal Baking Powder Co. v. Federal Trade Commission*, 281 F. 744 (2d Cir. 1922). *Cf. VISA, U.S.A., Inc. v. Birmingham Trust*

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[11] Lever Brothers cites the case of Ms. Eileen Farnham of Upper Marlboro, Maryland, who used a bar of British made "Shield" soap that was harsh on her sensitive skin. It was not until after she purchased the soap that she read the "fine print" indicating the soap's foreign origin. This unfortunate incident was plainly the fault of Lever Brothers' conglomerate management. It alone is responsible for marketing different types of soap under the same trademark, and hiding the difference in the "fine print" on the package. Even if Lever Brothers enjoyed the protection of Section 526, how could it expect to protect others from similar mishaps on vacations to Europe? Respondents have taken their "territoriality" theory of trademarks to such an extreme that they feel no responsibility to assure consumers that their trademarks represent consistent quality around the globe.

Nat'l Bank, 696 F.2d 1371, 1375 (Fed. Cir. 1982), *cert. denied*, 464 U.S. 826 (1983); *Pepsico, Inc. v. Grapette Co.*, 416 F.2d 285, 289 (8th Cir. 1969). Under established trademark law, a licensor has a duty to control the quality of its licensee's merchandise. *See generally* 3 Callman, *The Law of Unfair Competition, Trademarks and Monopolies*, § 19.50 (Altman 4th ed. 1983).

> The licensor owes an affirmative duty to the public to assure that in the hands of his licensee the trademark continues to represent that which it purports to represent. For a licensor . . . to permit inferior products to be presented to the public under his licensed mark might well constitute a mis-use of the mark.

Siegel v. Chicken Delight, Inc., 448 F.2d 43, 51 (9th Cir. 1971), *cert. denied*, 405 U.S. 955 (1972).

COPIAT and its *amici* argue that consumers are injured by parallel imports because of "free riding" and differing quality products.[12] The only independently prepared study—that submitted to the Customs Service by the Federal Trade Commission staff—disagrees. "[T]here is insufficient basis to conclude that gray market imports are caused by free rider or consumer decep-

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[12] Congress has declined to ban parallel importation of foreign made automobiles despite strenuous claims by American trademark owners that such restrictions on imports are necessary to protect consumers. *See* S.863, 99th Cong., 2d Sess. (1986), 132 Cong. Rec. S6097 (1986); H.R. 2248, 99th Cong., 2d Sess. (1986), 132 Cong. Rec. H9238 (1986); American Free Trade Association Br. 12-13. Wine and liquor trademark owners also had urged Congress to require parallel importers to certify ingredients and methods of production, knowing that the foreign manufacturers would never provide that information to parallel importers. The proposal was rejected as anti-consumer. 132 Cong. Rec. H11080 (1986). *See* American Free Trade Association Br. 10-12; State of Washington Br. 4 n.7.

Several of COPIAT's *amici* argue that consumer health and safety is threatened by parallel importation, but not one federal regulatory agency has adopted this view. Moreover, there is active monitoring of all imports by the Food and Drug Administration. *See* 21 C.F.R. §§ 1-99, 600-799 (1986).

tion problems." *FTC Comments* 17. The *FTC Comments* concluded (pp. 2, 21) that parallel imports should not be restricted, not only because they benefit consumers but also because "there are alternative private and public remedies for potential free rider or deception problems, if they exist." These obviously include differentiation of trademarks used on foreign and domestic products.

IV. PARALLEL IMPORTATION IS A PROTECTED INTERNATIONAL TRADE PRACTICE.

COPIAT acknowledges that our major trading partners—Canada, Japan and virtually all of Europe—permit parallel importation. None gives American companies the right COPIAT seeks for its foreign members. COPIAT maintains that what other countries do is irrelevant to the issue before the Court, but COPIAT is asking this Court to presume that Congress intended a drastic result—unilateral trade protection for foreign manufacturers, with tremendous consequences for trade policy, for the economy and for American consumers. As the Federal Trade Commission staff pointed out to the Customs Service during its recent consideration of COPIAT's request for a change in the regulations, elimination of parallel importation poses a "significant risk of harming consumers both in the short run and the long run." *FTC Comments* 22.

The regulations effectuate both the trade laws and the trademark laws.[13] COPIAT is asking this Court to adopt a trademark policy that has been rejected by the rest of the world and enforce a trademark monopoly within this country without regard to whether the foreign and domestic trademark owners are commonly controlled. While some of our trading partners recognize the territoriality of trademarks, none do so where the foreign and domestic trademark owners are related entities, nor does the Common Market.[14] There is no evidence that, in

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[13] *See* p. 13, n.9, *supra*.

[14] The *amicus* brief filed by Cetus Corporation (pp. 7-8) tells the Court that our major trading partners permit trademark

passing Section 526, Congress intended to insulate the United States market from competition or to confer a unique benefit on foreign manufacturers.

COPIAT also asserts that the foreign parallel-import cases show that other countries, and not just the United States, are victims of price discrimination by multinational trademark owners. COPIAT Br. 6-7. Of course, there may be discrimination elsewhere. But the United States remains a prime target of such price discrimination. According to the *FTC Comments* (App. A. p. 3, footnote omitted):

> U.S. wholesale prices for products with significant gray market activity were commonly substantially higher than comparable foreign wholesale prices when the dollar was appreciating. Cost differences do not appear sufficient to explain all these wholesale price differences.

Moreover, parallel imports restrain price discrimination (*FTC Comments* 15):

> Perhaps more important than the actual competition effects of gray market goods are the potential competition effects. Manufacturers are not likely to even attempt to price discriminate or collude against U.S. consumers if gray markets can rapidly undercut the discrimination or collusion. Any effort by the Customs Service to make gray marketing more difficult in the future might therefore harm consumers of goods whose prices are now constrained by the threat of gray market imports.

American consumers suffer when any international conglomerate discriminates against the U.S. market, re-

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owners to block parallel imports. This is clearly refuted by the cases cited in our opening brief (pp. 39-42), which are ignored by Cetus. Cetus cites patent cases, which are irrelevant, and only one trademark case in support of this proposition. In *E.M.I. Records, Ltd. v. CBS United Kingdom Ltd.*, [1976] E.C.R. 811, [1976] 2 C.M.L.R. 235 (Eur. Ct. Jus. 1976), the U.S. and European trademarks were owned by independent entities. 2 C.M.L.R. at 240. Hence it did not involve parallel importation.

gardless of the nationality of the controlling entity. This has been demonstrated by Consumers Union in its brief as *amicus curiae*, echoing the views expressed to the Customs Service by other consumer groups, including Consumers for World Trade and Public Citizen.[15] Although COPIAT has claimed that its position protects consumers against inferior products or sales without warranties, not a single consumer group supports its position.

V. THE COURT OF INTERNATIONAL TRADE HAD EXCLUSIVE JURISDICTION.

Section 1581(i)(3) of Title 28 confers exclusive jurisdiction on the Court of International Trade over cases arising out of laws providing for "embargoes or other quantitative restrictions on the importation of merchandise for reasons other than the protection of the public health and safety." Limiting its focus to the single word "embargo," COPIAT contends that this term as "commonly understood" or "commonly thought of" should be restricted to "a limitation on exports imposed by the Administration for reasons of international trade policy" or a so-called "public-policy embargo." COPIAT Br. 14-15. This analysis, questionable even on its own terms, ignores several clear indications that Congress never meant to place any such limitation on this subsection:

First, the term "embargo" does not stand alone in the statute, but rather appears as one type of "quantitative

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[15] *See* Letter to John M. Walker, Jr. from Doreen L. Brown, dated May 19, 1983, Brief for *Amicus Curiae* Progress Trading Company, Inc. on Appeal at Exhibit C, *COPIAT v. United States* (also included in the Appendix to Memorandum of 47th St. Photo in Opposition to Plaintiff's Motion for Summary Judgment at 56-57, *COPIAT v. United States*); Letter to John M. Walker, Jr. from Jay Angoff, dated July 23, 1983, Brief for *Amicus Curiae* Progress Trading Company, Inc. on Appeal at Exhibit C, *COPIAT v. United States* (also included in the Appendix to Memorandum of 47th St. Photo in Opposition to Plaintiff's Motion for Summary Judgment at 59, *COPIAT v. United States*).

restriction" on imports. This formulation makes clear that any gloss peculiar to the term "embargo" was not meant to limit the statute's reach.

Second, the qualifying phrase "for reasons other than the protection of the public health or safety" forecloses any notion that the term "embargo" encompasses only restrictions on imports reflecting "trade policy." If the term "embargo" carried its own inherent limitation to "trade policy," there would have been no need specifically to exclude prohibitions arising from other concerns.

Third, the legislative history establishes that Section 1851(i)'s enumeration of several types of laws was an attempt to set out in "generic" fashion those "law[s] of the United States pertaining to international trade" over which the CIT would have cognizance. All earlier bills reflect the understanding that this jurisdiction would cover cases against the government arising from this Tariff Act of 1930. This "generic" reformulation of the statute clearly was not intended, and should not be construed, to remove portions of that Act from the CIT's jurisdiction.

CONCLUSION

For the foregoing reasons and those stated in our principal brief, the judgment of the Court of Appeals should be reversed.

Respectfully submitted,

NATHAN LEWIN
(Counsel of Record)
JAMIE S. GORELICK
STEPHEN L. NIGHTINGALE
MILLER, CASSIDY, LARROCA & LEWIN
2555 M Street, N.W., Suite 500
Washington, D.C. 20037
(202) 293-6400
Attorneys for Petitioner
47th Street Photo, Inc.

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